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FUEL OIL NEWS

- Annual Industry Study
- Supplier Directory
- Association Roll Call

A Hunter Publication

December 1988

THE 1989

SOURCE BOOK

December 1988

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FUEL OIL NEWS

1989 SOURCE BOOK

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COVER:

With this issue, *Fuel Oil News* enters its second decade of providing the industry's most comprehensive directory of manufacturers, suppliers and services for oil heat dealers. Also, for the 11th time we present our exclusive industry study in an attempt at producing data that will be helpful to the oil heating industry throughout 1989. *Cover design by Craig Reuter.*

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The Oil Heat Industry: 1988

Our 11th annual profile of marketers.

By George Schultz
Executive Editor

It is hard to believe this is actually the 11th time we have completed this important study. Our inaugural annual profile was conducted in 1978, which was after the first oil scare but before the second one in which the price of petroleum products really jumped. Along the way, the industry's critics have forecasted its demise and predicted that marketers would be out of business by now. Well, they were wrong. The industry still is very much alive and in many respects healthier than ever!

Compiling the statistics for this yearly profile is one tough cookie. Without the assistance of literally hundreds of marketers who completed complicated questionnaires, we wouldn't have a study at all. We're grateful, therefore, for their time and effort in sharing confidential company information so that the numbers could be developed.

Of course, the questionnaires didn't require marketers to identify themselves as a way to protect their privacy. There is no guarantee that the answers submitted were true, but we have great confidence in the honesty and integrity of our survey participants. Statistics published in past installments of this study have been corroborated in research published by the government and other sources, which validates our methodology.

Yes, there is a method to this madness. It begins with a three-page questionnaire which asks dealers just about everything we can think of about their businesses. It's sent out to a sample of dealers throughout the country. When the completed forms return, the data is assembled according to region, added, multiplied and divided in order to obtain averages and percentages that allow meaningful analysis and comparisons. Many of the questions are "yes or no" or "multiple choice" type, but there are quite a few fill ins as well, such as

TABLE 1
Type of Petroleum Sold
(% of readers)

	Fuel Oil	Gasoline
New England	100.0	36.7
Mid-Atlantic	97.7	48.8
South	100.0	76.9
Midwest	100.0	87.8
West	100.0	74.3
All Sections	**99.5**	**64.9**

TABLE 2
Petroleum Revenue as a Percent of Total Business Income

New England	82.1
Mid-Atlantic	85.7
South	84.6
Midwest	86.1
West	78.6
All Sections	**83.4**

TABLE 3
Sources of Business Income
(% of total business income)

	---FUEL OIL---				---GASOLINE---			
	Retail		Bulk		Retail		Bulk	
	Primary	Secondary	Primary	Secondary	Primary	Secondary	Primary	Secondary
New England	100.0	*	10.3	3.4	17.2	6.9	10.3	13.8
Mid-Atlantic	90.7	2.3	9.3	20.9	37.2	4.7	23.3	7.0
South	65.4	26.9	38.5	23.1	50.0	23.1	50.0	7.7
Midwest	75.6	14.6	46.3	29.3	65.9	9.8	43.9	26.8
West	57.1	28.6	54.3	17.1	48.6	8.6	48.6	14.3
All Sections	**77.8**	**14.5**	**31.7**	**18.8**	**43.8**	**10.6**	**5.2**	**13.9**

* - Less than .1%

TABLE 4
Petroleum Products Sold
(% of total volume)

	No. 2	No. 1	No. 4	Nos. 5&6	No. 2 for Diesel	Gasoline	Lpg/Lng	Other
New England	83.3	3.2	*	*	4.1	7.0	0.9	0.9
Mid-Atlantic	53.3	3.5	1.2	1.4	9.6	26.3	2.7	0.6
South	34.1	14.0	0.1	0.1	14.0	34.1	0.2	3.5
Midwest	37.7	5.8	*	*	26.3	27.4	2.7	1.9
West	36.4	6.0	0.6	*	23.0	30.1	1.6	2.0
All Sections	**49.0**	**6.5**	**0.4**	**0.3**	**15.4**	**25.0**	**1.6**	**1.8**

* - Less than .1%

the number of customers, gallonage and so forth.

We've showed our questionnaires to so-called survey experts over the years in an attempt to make it easier to fill out and process. They all told us that we were crazy – the questionnaires were too long and complicated for marketers to do. We'd never get enough back to be able to develop statistics. We are wasting our time.

These guys must be the same ones who said the oil heating industry was on its way out because every year we get back more than enough questionnaires to make our survey valid. Marketers from Maine to Alaska sit down and meticulously answer our questions, often adding additional details or comments to further assist us.

This year we even got a questionnaire back from Hoppy Damon at Maui Oil Burner Co. in Hawaii, who identified himself on the form. Aloha, Hoppy, and thanks for participating in our survey.

The Sample

In last year's 10th anniversary study we compared many of the statistics with our original profile and discussed the significance of the changes that transpired over the decade.

One of the principal changes we talked about was the growth of gasoline in the marketing mix. The percentage of dealers who marketed motor fuels, either wholesale or retail, had grown from a little more than 50% in 1978 to 63.8% last year (it had actually peaked the previous year at 72.5%). The percentage this year is 64.9%, virtually identical to 1987.

The percentage is much higher in regions outside of the Northeast. Fewer than half of the New England and Mid-Atlantic marketers handle gasoline (a combined average of 42.8%). In the other regions of the country, at least three-quarters of the sample markets gasoline, with a combined average of 79.7% when you exclude the Northeast.

This is very logical, when you think about it. The Northeast is oil heat's stronghold, so it makes sense that marketers in this area would tend to specialize in fuel oil. In the other regions where oil heat isn't the dominate fuel, marketers need to include motor fuels in their product mix to remain viable.

Table 1, which shows the regional percentages of the

TABLE 5
Average Size of Business

	Home Fuel Oil Accts	No. C/I Accts	Gals. of Distillate	Gals. of Resid	Gals. of Gas	No. of Empls
New England	1,411	145	1,698,704	212,500	942,000	8.5
Mid-Atlantic	2,279	222	2,289,166	575,348	1,827,884	15.7
South	1,243	268	1,432,600	I.D.	2,789,400	10.8
Midwest	750	167	1,737,813	481,000	2,293,636	11.5
West	1,924	218	2,432,500	I.D.	2,444,090	12.8
All Sections	**1,521**	**204**	**1,918,157.**	**253,770**	**2,059,402**	**11.9**

I.D. - Insufficient Data

TABLE 6
Annual Heating Oil Sales by Types of Customers
(% of total customers served)

	Private Homes	Apts.	Educ.	Hospitals	Commercial	Indus.
New England	83.6	5.1	0.4	0.2	7.4	1.9
Mid-Atlantic	81.9	2.8	0.9	0.9	7.3	3.4
South	58.6	3.1	1.1	2.1	25.9	4.2
Midwest	76.8	2.7	3.6	1.5	7.3	5.1
West	80.0	1.4	0.6	*	6.5	3.3
All Sections	**76.2**	**3.0**	**1.3**	**0.9**	**10.9**	**3.6**

* - Less than .1%

TABLE 7
Total Annual Company Dollar Revenues
(% of marketers in each category)

	Less than $1 Million	$1- 5 Mil.	$5- 10 Mil.	$10- 25 Mil.	$25 Mil. +
New England	43.3	43.3	13.3	*	*
Mid-Atlantic	29.7	40.5	10.8	16.2	2.1
South	24.0	44.0	8.0	16.0	8.0
Midwest	8.8	70.6	5.9	12.8	*
West	28.6	41.2	20.0	8.6	*
All Sections	**27.1**	**47.9**	**11.6**	**10.7**	**2.0**

* - Less than .1%

TABLE 8
Pre-Tax Earnings
(% of marketers in each category)

	Less than $50,000	$50,000 - $100,000	$100,000 - $200,000	$200,000 - $500,000	$500,000 +
New England	36.7	23.3	20.0	3.3	13.3
Mid-Atlantic	25.8	35.5	25.8	6.5	6.5
South	30.8	26.9	7.7	3.8	19.2
Midwest	33.3	39.4	12.1	12.1	3.0
West	40.6	34.4	9.4	12.5	4.2
All Sections	**33.4**	**31.9**	**15.0**	**7.6**	**9.2**

products sold by our sample, indicates that 99.5% of the respondents handle fuel oil. Why not 100%? A few equipment service-only operations were included in our sample because this is a legitimate part of the industry. Later on we'll discover that the percentage of marketers who have in-house service departments is diminishing, meaning that these service companies are growing in popularity.

Our sample is, overwhelmingly, comprised of petroleum marketers, as further illustrated by **Table 2**. This shows that for every dollar of revenue produced by the business, 83.4¢ comes from the sale of petroleum products. This figure is fairly consistent throughout the regions, with only the West dipping below 80% (78.6).

The Midwest, which is the worst region in terms of oil heat's share of market, relies most heavily on petroleum products for business revenue. Marketers there bring in 86.1¢ of every dollar from petroleum products (mainly gasoline and diesel, but also heating oil).

The overall figure in Table 2 is virtually identical to last year's 83%, although the regional statistics vary a bit. New England, the South and Midwest gained some, while the Mid-Atlantic and West figures went down a little. As we suggested last year, the yearly changes in Table 2 parallel the price/demand curve for petroleum. The figure stood at a high of 87% in 1986, when the price of oil plummeted, driving up demand. As prices came back up last year, demand slowed somewhat, lowering petroleum's share in total business income. Prices have remained stable since our last survey, as has demand, which is why the percentages in Table 2 haven't changed much.

What brings in the remaining 16.6¢ in every business income dollar? You name it. Marketers are involved in a host of diversified operations, from auto service to convenience stores, trucking, equipment sales and service, lawn care, swimming pool maintenance, and on and on. These operations are important in making productive use of personnel and equipment in the off-season, but obviously isn't the bread-and-butter of a marketing operation.

TABLE 9
EDP Use
(% of marketers using computers)

New England	60.0
Mid-Atlantic	74.4
South	42.3
Midwest	56.1
West	68.6
All Sections	**60.3**

Product Breakdown

In **Tables 3** and **4** we asked our marketer sample to detail their product sales. First we asked whether they considered various operations as primary or secondary to their total business income. We didn't define exactly what we meant here, so there was some interpretation on the marketers' parts as to what constitutes primary and secondary. But the overwhelming majority once again responded that retail fuel oil sales is their primary business. Less than 15% considered retail fuel oil marketing as secondary.

Less than half of the respondents consider retail gasoline sales as a primary source of business income. Fewer still consider bulk gasoline as primary, although that figure (35.2%) is slightly higher than the 31.7% who say that bulk fuel oil is a primary source of business income.

It's interesting to note the changes in these figures since last year, when 88.5% said retail fuel oil and 28.6% said retail gasoline was primary. The 11% drop on the fuel oil side matches well with the 15% gain in primary gasoline marketing.

This suggests that although the same percentage of dealers market gasoline as last year, when comparing the 1987 and 1988 figures of Table 1, retail gasoline has become a greater source of income to marketers.

This is further suggested by the corresponding drop in the secondary figures of both retail fuel oil and retail gasoline. Last year, 7.5% of the dealers said retail fuel oil was secondary (now up to 14.5%) and 20.7% said retail gasoline was secondary (now at 10.6%).

Bulk fuel oil sales has inched up

TABLE 10
Computer Applications
(% of marketers using EDP for listed operations)

	New England	Mid-Atlantic	South	Mid-West	West	All Sections
Accts Rec/Billing	83.3	90.6	100.0	100.0	91.7	91.3
General Ledger	72.2	62.5	90.9	62.6	79.2	73.5
Accts Payable	38.9	59.4	81.8	69.6	75.0	64.9
Inventory Recon	38.9	46.9	81.8	73.9	62.5	60.8
Excise Tax	27.8	65.6	63.6	73.9	45.8	55.3
Payroll	33.3	50.0	81.8	52.2	54.2	54.3
Delivery Sched	83.3	50.0	54.5	26.1	16.5	46.1
Word Processing	33.3	37.5	72.7	39.1	37.5	44.0
Fixed Assets	16.7	21.9	63.6	30.4	33.3	33.2
Supplier Costs	5.6	15.6	81.8	21.7	20.8	29.1
Pricing Analysis	*	15.6	45.5	13.0	12.5	17.3
Comm w/ Stations	*	6.3	*	17.4	29.2	10.6
Oil Price Info	*	12.5	*	8.7	12.5	6.7

* - Less than .1%

TABLE 11
Trucks per Marketer

	----Avg. No.----		----Gallons----		
	Delivery Trucks	Trailers	Avg Size Largest	Smallest	Opt Size Preferred
New England	3.4	0.4	2886	2150	2819
Mid-Atlantic	6.4	1.2	2931	2188	2829
South	4.7	1.0	2463	1838	2353
Midwest	3.9	0.7	2424	1785	2287
West	4.3	1.1	2756	1658	2567
All Sections	**4.5**	**0.9**	**2692**	**1924**	**2571**

TABLE 12
Engines by Type
(% of readers)

	----Use----			----Prefer----	
	Diesel	Gasoline	Both	Diesel	Gasoline
New England	60.0	20.0	20.0	80.0	6.7
Mid-Atlantic	31.0	19.0	50.0	73.8	16.7
South	8.3	33.3	58.3	41.7	41.7
Midwest	22.5	35.0	42.5	60.0	25.0
West	8.8	32.4	58.8	58.8	23.5
All Sections	**26.1**	**27.9**	**45.9**	**62.9**	**22.7**

Truck Tanks by Type
(% of readers)

	----Use----			----Prefer----	
	Steel	Aluminum	Both	Steel	Aluminum
New England	26.7	16.7	46.7	6.7	66.7
Mid-Atlantic	25.0	27.5	47.5	17.5	72.5
South	50.0	8.3	37.5	37.5	45.8
Midwest	75.0	10.0	10.0	32.5	32.5
West	47.1	5.9	44.1	17.6	50.0
All Sections	**44.8**	**13.7**	**37.2**	**22.4**	**53.5**

in importance, according to Table 3. Last year, it was primary to 21% and secondary to 21.5%. This year, it's 31.7% and 18.8%, respectively. Likewise, the same is true for bulk gasoline. Last year, it was primary to 28.1% and secondary to 22.1%. In our latest survey, it's 35.2% and 13.9%.

No. 2 oil is still the largest selling product, although it's share is falling. Just 49% of all petroleum sold is heating oil, according to this year's survey. In 1987, it accounted for 57%. Gasoline's share rose from 17.6% last year to 25%, almost exactly corresponding to fuel oil's decline. None of the other products changed much, and as a group account for a small slice of the overall petroleum pie.

Table 4 shows that fuel oil accounts for the majority of product sold only in the Northeast, while it is only about one-third of the overall in the other regions. These other regions have much higher gasoline and diesel percentages as well, supporting our earlier discussion about product mix outside the Northeast.

Business Size

In 1978, the average marketer had about 1,551 residential customers and sold about 2.4 million gals. of fuel oil. Last year, the average was 1,606 and 2 million gals. Not much fluctuation is evident this year, as the average dealer now has 1,521 residential customers and sells 1.9 million gals. of fuel oil. Whatever differences there are in **Table 5** are sample variations as far as we can tell.

In addition to the similarities mentioned, the average number of commercial/industrial accounts has remained virtually identical — 204 this year compared with 208 last year. Gasoline volume, 2,059,402 gals., is practically the same as last year's 2,071,099 gals. average.

There is a difference in the average residual volume, but here is where sample variation comes into play. Because only a relatively small percentage of marketers handle resid, just who returns the questionnaire can impact the final figures we publish here. So the fact that the average has dropped from 542,000 gals. last year to just 253,000 in Table 5 doesn't alarm us much.

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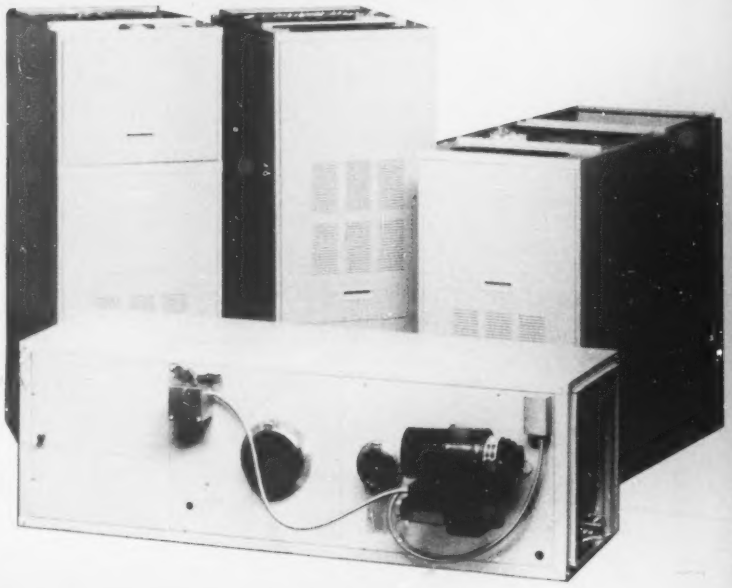

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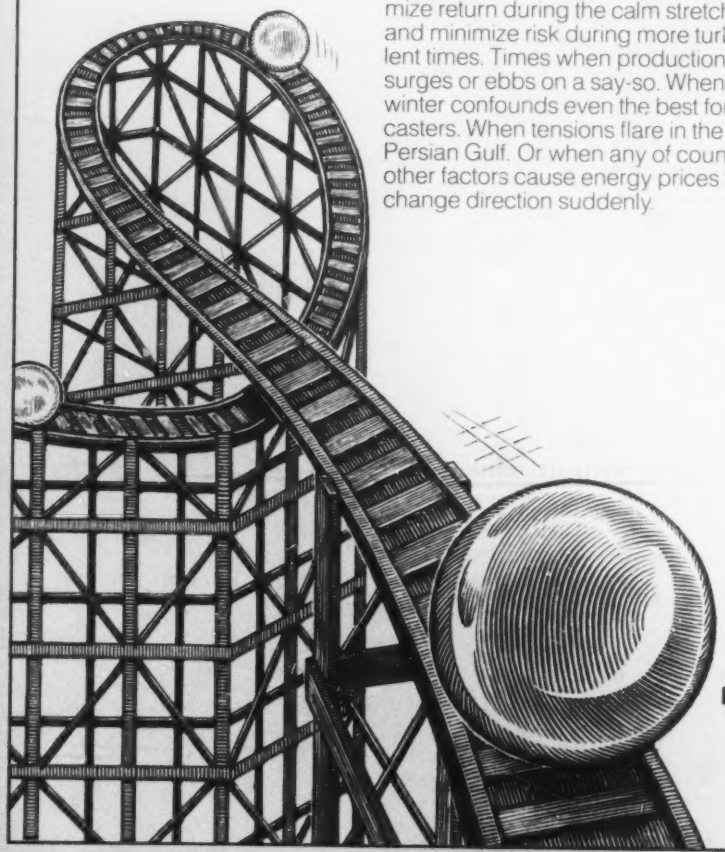

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volume sold, the average customer now uses about 1,112 gals. of fuel oil annually. This isn't a very scientific assessment because it takes into account both residential and commercial accounts, which obviously have much different consumption patterns. However, if we use this figure just for argument's sake and assume that the average margin is about 25¢ (which simplifies the arithmetic), then each customer is worth about $278 per year in gross margin to marketers.

There has been a $500 per account number bouncing around the industry as the going rate of buying a dealership. Another number going around is 10¢ per gal. net profit. If we use these figures, then the average account earns marketers $111.20 per year, or about a four-and-a-half-year pay out on a $500 purchase price.

Obviously not every marketer is getting a 25-cent margin or 10¢ net profit. It depends on the area of the country and the competitive pressures involved. On Long Island, for example, margins may be generally higher than a quarter, but competition is fierce and they're giving away equipment service and other incentives so the net effect is lower net profit. The Northwest has cheap utility rates so marketers have to shave prices in order to compete.

The regional comparisons with last year's figures are fairly consistent. The Western average number of residential customers fell while the Mid-Atlantic rose, which offset one another. Gallonage figures didn't change appreciably – the West still has the largest average (2.4 million gals. per dealer this year vs. 2.5 million gals. in 1987). The South now has the lowest average, replacing the Midwest in this dubious honor.

As far as gasoline volume is concerned, regional changes are significant. New England, which has an average of better than 2 million gals. last year has dropped to less than 1 million gals. The Mid-Atlantic also lost some (2.6 million gal. vs. 1.8 million gals.) while the other areas all gained.

Mostly Private Homes

Is it any surprise that for the 11th year in a row private homes make up the majority of customers served by marketers? This year's 76.2% is just 0.2% different than last year's figure and just 2% less than our original survey result back in 1978.

For the 11th year in a row private homes make up the majority of customers served my marketers.

The columns don't add up to 100% because of "rounding" of numbers and because there's actually another column of "other" types which we didn't list. The "others" include agricultural customers, which are more important to Southern and Midwestern marketers.

There isn't anything worth mentioning here in terms of regional differences or changes from our last survey (or any survey for that matter). This has been the marketplace for many years and will continue to be the major arena in which marketers battle for years to come.

Bottom Line

Tables 7 & **8** relate back to margins discussed earlier. Here we've asked marketers about their annual revenues and pre-tax earnings. The largest percentage in revenue is in the $1 million to $5 million category, in which nearly half of our panel operates. Under $1 million is the second most popular category, accounting for 27.1% of our sample.

A majority of dealers have earnings of less than $100,000, with one-third registering less than $50,000. As everyone knows, this is deceiving because it doesn't take into account the high salaries and "perks" marketers are pulling down (just kidding).

About the only change in these two tables from last year is that a few of the $100,000-plus marketers in pre-tax earnings in 1987 have slipped into the $100,000-and-under categories.

Electronic Data Processing

I don't know many dealers who don't use computers in their operation, either in-house or on-line. However, according to the marketers we sampled, only about 60% use EDP in their companies. This ranges from a high of nearly 75% in the Mid-Atlantic to less than half in the South.

The overall average in **Table 9** is some three points below the 1987 figure, which can only be explained as sample variation. Computer use has certainly grown since our

TABLE 13
Average Age of Trucks

	Year of Oldest	Year of Newest
New England	1975.9	1983.4
Mid-Atlantic	1973.4	1983.7
South	1975.0	1983.6
Midwest	1976.4	1984.2
West	1970.6	1980.7
All Sections	**1974.3**	**1983.1**

Percent Buying This Year

	New Truck	New Tank
New England	23.3	23.3
Mid-Atlantic	32.6	18.6
South	28.0	20.0
Midwest	41.5	22.0
West	34.3	17.1
All Sections	**31.9**	**20.2**

TABLE 14
Average Drop in Gallons

	275-gal. Tanks	550-gal. Tanks
New England	171.7	368.9
Mid-Atlantic	180.7	357.6
South	182.4	354.0
Midwest	202.4	385.7
West	179.2	356.9
All Sections	**183.3**	**364.6**

TABLE 15
Percent Using Two-Way Radio

New England	66.7
Mid-Atlantic	53.5
South	46.2
Midwest	63.4
West	62.9
All Sections	**58.5**

original survey back in 1978. Then only about 38% of the dealers said they used computers.

Table 10 details the various operations in which computers are utilized. Accounts receivable/billing is the most popular, followed by general ledger and accounts payable. The other financial operations follow, with the non-accounting functions far behind. This pattern has persisted since we first began asking these questions a few years ago.

Trucks

Trucks are vital to marketing operations. They're the heating oil industry's pipeline and represent the largest single investment in equipment. Consequently, we ask a number of truck questions on our survey, the answers of which are detailed in **Tables 11**, **12** and **13**.

The average number of trucks per marketer has slowly diminished over the years, which corresponds to the slow erosion in gallonage. Our first survey revealed an average of 5.1 trucks per marketer. Last year, it was down to 4.6. Now it's 4.5 trucks per marketer. The average number of trailers per marketer has also declined. We didn't ask this question originally, but last year, the average marketer had 1.3 trailers. In 1988, the figure stands at 0.9.

Table 11 also shows the average fleet tank sizes. The average largest marketer truck is about 2,700 gal.; the average smallest is approximately 2,000 gals. This is no change from last year and very little difference from any of our previous surveys. The same is true for the "optimum" size. Here we ask marketers that, given a choice, what size tank truck would they buy. Their reply was 2,571 gals., about what it has been for the past decade.

There's also nothing new to report on Table 12, which shows what type of engines and tank material are used and preferred. The move to diesel continues, as older gasoline-powered trucks are being retired and new ones purchased to replace them.

Nearly three-quarters of our sample have diesels in their fleets. Back in 1978, only about 30% of the dealers surveyed had diesels.

The average number of trucks per marketer has diminished over the years, which corresponds to the slow erosion in gallonage.

Only Southern dealers are divided about their preference in fuel, with an identical 41.7% favoring diesel and gasoline. The remaining 16.6% evidently don't give a hoot. In all the other regions, diesel is clearly preferred by marketers, with New Englanders leading the way (80.0%). Overall, nearly two-thirds (62.9%) prefer diesel.

The inconsistency of use vs. preference in tank material continues. More marketers report using steel tanks, although a majority of those polled favor aluminum. The "both" column continues to grow, up from the 35% posted last year to 37.2% in 1988. Again, this indicates a slow changeover as older trucks are put out to pasture.

The average age of trucks in marketer fleets hasn't kept pace with time. What do we mean? Last year, the average age of the oldest truck was a 1973.1 rig. The average age of the newest last year was 1982.7. That means that the mean age of marketer trucks was 1977.9. In order to stay in synch, that mean should now be 1978.9. However, the average age of the oldest truck in marketer fleets is now calculated to be 1974.3; the average of the newest is 1983.1, for a mean of 1978.7. Granted the difference of 0.2 years isn't much, but it suggests that marketers aren't replacing their rigs as fast as they should.

Regionally there are some even more dramatic differences. In the Mid-Atlantic, for example, the average age of newest trucks is actually behind last year (1984.5 posted in 1987 vs. 1983.7 this year). That means that these dealers kept trucks on-line even

TABLE 16
Dealers Trading on the Oil Futures Market

New England	16.7
Mid-Atlantic	11.6
South	3.8
Midwest	9.8
West	*
All Sections	**8.4**

* - Less than .1%

TABLE 17
Dealers Operating Bulkplants (in %)

	With Bulk Plants	Bulk Plants Storing Other Prods
New England	56.7	64.7
Mid-Atlantic	69.8	90.0
South	80.8	85.7
Midwest	95.1	89.7
West	88.6	83.9
All Sections	**78.2**	**82.8**

TABLE 18
Average Storage Capacity in Gals.

	No. 2 Oil	Diesel	Gasoline	Lpg	Kerosene
New England	225,812	25,182	58,364	I.D.	4,727
Mid-Atlantic	134,345	23,909	66,857	30,000	29,000
South	50,950	37,857	73,429	27,000	37,500
Midwest	96,595	33,191	48,500	38,500	35,067
West	60,214	46,000	104,455	I.D.	16,286
All Sections	**113,583**	**33,228**	**70,321**	**31,833**	**24,516**

I.D. - Insufficient Data

longer than other areas.

About the same percentage of marketers plan to buy a new truck or replace a tank on an existing truck this year as so stated in 1987.

However, it appears that fewer actually bought new trucks than were planning to do so. Perhaps next year will show that those who held off on buying new trucks did so between now and our next survey.

Deliveries, Radios

In **Table 14**, we asked dealers what they averaged in deliveries to both 275-gal. and 550-gal. residential tanks. The averages registered are virtually identical to all our other surveys.

More and more of our marketers are using two-way radio equipment, as shown in **Table 15**. Nearly 60% nationwide use two-way radios, and a number say they've installed cellular phones in trucks (which are included in the radio figure here for simplicity's sake).

Futures Trading

The New York Mercantile Exchange began trading heating oil futures contracts in November 1978, just about the time we published our first survey. We began asking dealers if they dabbled in commodities a few years later, and initially only a handful said they did. However, as this hedging tool became better understood by the industry, more dealers began to utilize the market. The figure topped out at about 10% a couple of years ago and has dropped off a bit (to 8.4% this year). See **Table 16**.

Experts feel that futures trading has diminished somewhat because of the stabile prices which have existed in the marketplace over the past two or three years. Marketers are more inclined to hedge their inventories when there are wide fluctuations in prices, they say. This makes sense. Last year, about 9.2% of the marketers responding to our survey said they traded oil futures.

Real Product

How many marketers have their own storage capabilities? More than three-quarters of those surveyed, according to **Table 17**. Virtually no change here from last year, although the percentage of marketers with bulk plants who store more than No. 2 oil has risen 7%.

The amount of storage is shown in **Table 18**, with the only change from last year reflected in the gasoline column. Last year, our panel averaged only about 43,000 gal. in gasoline storage, whereas this year that figure tops 70,000 gals. The other averages are well within one standard deviation, what statisticians use to judge trends in such surveys.

Product Improvement

With all the talk about product quality inconsistencies over the past few years, we began asking about additives a couple of years ago. We've discovered that about 37.6% of our marketers use additives to improve the performance and handling capabilities of fuel oil.

This figure has stayed fairly consistent in the three surveys in which this question was asked, as has the percentage which blends the additive at various stages in the distribution. See **Table 19**.

Some dealers blend additives on trucks and in tanks, which is why these figures don't necessarily add up to 100%. However, there is a change here since our last survey when a majority of dealers said they blended additives at the bulk plant. This year, a majority said they do so in customer tanks. Does this mean that they're only using it when sludge is a problem? Perhaps.

Burning the Fuel

Having explored the oil handling aspects of the industry, let's now turn our attention to the fire side of the business – HVAC equipment. Right away we see a trend that is disturbing. Fewer marketers say they sell, install and/or service such equipment than did so in previous surveys. Just 46.9% overall

TABLE 19
Dealers Using Additives
(in %)

	Using Additives	Blended at Bulk Plant	Blended on Trucks	Blended in Cust.Tanks
New England	40.0	25.0	16.7	66.7
Mid-Atlantic	37.2	18.9	25.0	56.3
South	26.9	57.1	28.6	57.1
Midwest	61.0	28.0	40.0	52.0
West	22.9	50.0	50.0	37.5
All Sections	**37.6**	**35.8**	**32.1**	**53.9**

TABLE 21
Sources of Business Income
(% of dealers reporting)

	Heating Equipment			
	Retail	Wholesale	Air Conditioning	Other
New England	69.0	13.8	17.2	24.1
Mid-Atlantic	55.8	18.6	34.9	25.6
South	34.6	11.5	15.4	7.7
Midwest	26.8	14.6	19.5	17.1
West	34.3	20.0	22.9	22.9
All Sections	**44.1**	**15.7**	**22.0**	**19.5**

TABLE 20
Percent of Fuel Oil Dealers Who Sell, Install and/or Service All Types of HVAC Equipment

New England	73.3
Mid-Atlantic	60.5
South	34.6
Midwest	31.7
West	34.3
All Sections	**46.9**

TABLE 22
Trends in Equipment Sales
Past 12 Months
(% of dealers reporting)

	Resident Up	Commer Up
New England	92.0	36.0
Mid-Atlantic	69.2	34.6
South	66.7	83.3
Midwest	46.2	15.4
West	25.0	41.7
All Sections	**59.8**	**42.2**

said "yes" to this question, compared with 50.9% last year.

At a time when the dominant industry advertising is stressing our "We'll be right over" service, it seems incredible that fewer marketers are offering equipment sales/service. At first we thought we made a mistake in our arithmetic here, so we checked the figures in **Table 20** with those in **Table 27**. The percentage of marketers who have in-house service departments is also off dramatically from last year, 46.4% this year vs. 57.6% in 1987.

We said last year that we've stressed the need to service equipment in *Fuel Oil News* during our entire 53-year history. That need is greater than ever now and we simply can't understand why marketers are moving away from it.

Well, we do understand why...it's a question of economics. Service has traditionally been a money loser, so the expedient thing to do is drop it. We applaud the dealers who have resisted this urge and have opted instead to increase the efficiency of their service organization and turned a liability into a profit opportunity.

In any event, only the Northeastern marketers reporting said they sell, install and/or service HVAC equipment. The Midwest has never been big in this category, but the South and West had in the past had a majority of marketers reporting that they did handle equipment sales/installation/service.

Table 21 is further evidence of the decline in equipment sales as part of marketer operations. Just 44.1% of our panel said that retail heating equipment was a source of business income – either primary or secondary. Just 15.7% are involved in wholesale equipment sales, and 22% sell air conditioning.

TABLE 23
Percent of Fuel Oil Dealers Who Sell, Install and/or Service
Selected HVAC Equipment

RESIDENTIAL

		-----Domestic Hot-----			
	Oil Burners	Gas Burners	Water	Boilers	Hydronic Systems
New England	92.0	24.0	88.0	88.0	48.0
Mid-Atlantic	92.3	30.8	80.8	84.6	73.1
South	100.0	66.7	83.3	50.0	50.0
Midwest	76.9	46.2	69.2	69.2	46.2
West	91.7	25.0	41.7	33.3	41.7
All Sections	**90.6**	**38.5**	**72.6**	**65.0**	**51.8**

COMMERCIAL

		-----Domestic Hot-----			
	Oil Burners	Gas Burners	Water	Boilers	Hydronic Systems
New England	72.0	16.0	40.0	52.0	28.0
Mid-Atlantic	69.2	26.9	50.0	57.7	57.7
South	83.3	50.0	50.0	33.3	16.7
Midwest	46.2	30.8	38.5	30.8	7.7
West	41.7	8.3	41.7	33.3	33.3
All Sections	**62.5**	**26.4**	**44.0**	**41.4**	**28.7**

TABLE 24
Percent of Fuel Oil Dealers Who Sell, Install and/or Service
Selected HVAC Equipment

RESIDENTIAL

	Unitary Air Conditioning	Electric Resistance	Insulation	Solar
New England	8.0	*	*	4.0
Mid-Atlantic	23.1	3.8	15.4	3.8
South	50.0	33.3	33.3	16.7
Midwest	23.1	*	*	*
West	25.0	16.7	7.5	16.7
All Sections	**25.8**	**10.8**	**11.2**	**8.2**

COMMERCIAL

	Unitary Air Condition	Electric Resist	Insulation	Solar	Refrigeration
New England	*	4.0	*	4.0	4.0
Mid-Atlantic	7.7	*	3.8	*	7.7
South	16.7	16.7	*	*	16.7
Midwest	7.7	*	*	*	*
West	33.3	8.3	*	8.3	8.3
All Sections	**13.1**	**5.8**	**0.8**	**3.2**	**7.3**

* - Less than .1%

Nearly 20% are also involved in "other" operations, which as we said earlier is anything from C-stores to swimming pools and who knows what else.

Equipment Breakdown

Those dealers who do sell and install equipment have evidently had a good year at it. A majority (59.8%) of the dealers reported that residential equipment sales increased in the past 12 months over the previous period. Another 42.2% said commercial equipment sales were up. See **Table 22** for regional details, which show that New England marketers are way ahead of the national figure on the residential side while Southern marketers had a particularly good year in commercial sales.

We are always surprised that some marketers don't sell oil burners but do handle other equipment. **Tables 23, 24** and **25** show what equipment dealers who said "yes" in Table 20 sell. More than 90% sell oil burners, which has been the leading category every year since 1978. Domestic hot water is second, has always been second and probably will always be second. Furnaces are third.

Northeasterners are surprised about this result because of the dominance of wet heat in New England and the Mid-Atlantic. However, the rest of the country is selling mostly warm air, which makes furnaces more popular overall. Nearly 40% sell gas burners, which has been a fairly consistent number for a few years and an eye-opener.

The average number of burners, boilers and furnaces sold hasn't fluctuated much from last year. Nationwide, marketers sell about 37 burners, 24 boilers and 29 furnaces per year on the residential side. The boiler and furnace figure is up somewhat from last year, although commercial sales for these products has diminished from 1987. See **Table 26** for details.

We were disappointed that the marketers in the South didn't provide enough details here to make accurate projections regionally. Their answers are included in the nationwide totals.

TABLE 25
Percent of Fuel Oil Dealers Who Sell, Install and/or Service Selected HVAC Equipment

RESIDENTIAL

	Furnaces	Warm Air Systems	Central Air Condition	Heat Pump	Continuous Air Circulation
New England	96.0	76.0	28.0	8.0	*
Mid-Atlantic	88.5	69.2	69.2	11.5	7.7
South	100.0	66.7	33.3	50.0	16.7
Midwest	84.6	76.9	53.8	15.4	7.7
West	91.7	66.7	16.7	16.7	8.3
All Sections	**92.2**	**71.1**	**40.2**	**20.3**	**8.1**

COMMERCIAL

	Furnaces	Warm Air Systems	Central Air Conditioning	Heat Pump
New England	52.0	28.0	16.0	*
Mid-Atlantic	57.7	38.5	26.9	11.5
South	66.7	33.3	33.3	50.0
Midwest	53.8	23.1	23.2	7.7
West	58.3	25.0	33.3	16.7
All Sections	**57.7**	**29.6**	**26.5**	**17.1**

TABLE 26
Average Number of Units Installed in Past 12 Months

	---RESIDENTIAL---			---COMMERCIAL---		
	Burners	Boilers	Furnace	Burners	Boilers	Furnace
New England	29.7	29.5	11.4	4.1	3.9	2.0
Mid-Atlantic	51.9	60.9	27.8	6.0	4.8	3.2
South	I.D.	I.D.	I.D.	I.D.	I.D.	I.D.
Midwest	11.8	2.5	14.8	0.5	0.1	1.1
West	55.0	2.6	60.5	*	*	*
All Sections	**37.1**	**23.9**	**28.6**	**2.7**	**2.2**	**1.6**

* - Less than .1%
I.D. - Insufficient Data

Service

We alluded to the reduction in the percentage of marketers who operate in-house service departments. It seems that there is a growing trend to farming out service either to other marketers or to service-only companies. Part of this is due to the severe shortage in qualified technicians.

Just pick up a newspaper and look at the help wanted ads. There are always a number of ads for oil burner servicemen, and marketers tell us that this is a very critical

problem in the industry. When qualified help is unavailable, the only recourse may be to farm out service to someone else.

That the service-only companies are growing is a direct result of the personnel shortage. It's the classic supply and demand theory of economics. These companies are often run by former oil company service technicians who decided that it was better to work for themselves than someone else...the great American dream.

OK, so fewer marketers have in-house service. For those who do, they're averaging 1,914 calls, or about 1.3 calls per residential customer. The raw figure fluctuates widely, from a high of 3,085 calls (1.6 per) in the West to 750 (1.3 per) in the Midwest, but notice how the calls-per-customer figure in parenthesis doesn't change much. To round out the other sections, in New England, the number of calls per customer is estimated at 1.1; in the Mid-Atlantic it's 1.3 and in the South it's 1.4.

The value of parts inventory has increased a lot since last year. Nationwide it's calculated to be in excess of $24,000 per marketer with a service department. Last year they said it was only $16,000. Prices haven't gone up that much, but perhaps marketers are buying more equipment for their inventory.

The West has an unusually large inventory cost of more than $44,000 which is four times what they reported last year. Sample variation is the only explanation that we can come up with for this phenomenon.

More than half of the service operations are profitable, according to **Table 27**. Every region showed a majority in this column except New England, where only 39.1% of the service departments are profitable. The overall figure is up about 5% from last year, with the Mid-Atlantic showing the largest regional improvement.

Despite fewer service departments, or maybe because of it, the average number of service technicians and vans per operation has increased since last year. Marketers now employ 4.1 service technicians and an identical number of vans. In

TABLE 27
The Service Department

	% Have Service Depart	Avg No. Calls /Year	Value of Parts Inven-tory	% Service Depart Profitable	No. of Techs	No. of Service Vans
New England	76.7	1,281	$17,444	39.1	2.8	2.9
Mid-Atlantic	60.5	2,880	25,103	61.5	5.4	5.5
South	30.8	1,769	21,667	50.0	4.0	3.8
Midwest	29.3	556	14,955	66.7	2.4	2.4
West	34.3	3,085	44,477	58.3	5.7	6.1
All Sections	**46.3**	**1,914**	**$24,729**	**55.1**	**4.1**	**4.1**

TABLE 28
The Gas Threat

	% Saying Gas a Major Threat	% Losing Customers	Avg No. Lost	% Taking Steps to Combat	% Making Gas Conversions
New England	38.5	50.0	7.5	30.0	42.3
Mid-Atlantic	72.7	92.3	16.0	70.8	26.3
South	71.4	57.1	12.3	42.8	42.8
Midwest	75.0	100.0	16.3	62.5	20.0
West	91.7	76.9	12.7	83.3	33.3
All Sections	**69.9**	**75.3**	**13.0**	**57.9**	**32.9**

TABLE 29
Percent Recommending Equipment Replacement Under Following Conditions

	New England	Mid-Atlantic	South	Mid-West	West	All Sections
Unit continuously problematic	80.8	64.0	100.0	71.4	90.9	81.4
Boiler Leaks	88.5	84.0	57.1	78.6	90.9	79.8
Operates with no problems, but old & inefficient	88.5	76.0	42.9	64.3	72.7	68.9
Emits fumes	57.7	56.0	42.9	64.3	81.8	60.6
Homeowner threatens to convert to another fuel	19.2	40.0	28.6	71.4	54.5	42.7
Breaks down	38.5	24.0	42.9	42.9	54.5	40.6
Homeowner objects to heating bills	30.8	44.0	28.6	42.9	54.5	40.2
Unit is inefficient (but not old)	34.6	40.0	28.6	42.9	45.5	38.3

TABLE 30
Dealers Who Recommend Equipment Replacement by Brand

	% Recommend Brand Name	% of Cust Following Recom
New England	80.8	87.5
Mid-Atlantic	80.0	84.6
South	42.9	82.6
Midwest	42.9	86.7
West	83.3	78.8
All Sections	**66.0**	**84.0**

1987, they had 3.6 technicians and 3.5 vans.

The Effect of Competition

Perhaps as a result of the diminishing number of marketers selling and/or servicing HVAC equipment, there is a growing activity on the part of utilities in making further inroads into oil heat's market share. **Table 28** shows that more than three-quarters of our panel are losing customers to gas heat. This is 11 points higher than last year.

The average number of customers lost — 13 — is below last year's average of 19.3, but because more marketers are losing customers, the overall number is going up.

A growing number of marketers are also recognizing gas as a major threat to their businesses. Almost 70% voiced this opinion this year vs. just 45% who checked this off last year. Some 58% are trying to do something to stop the inroads of gas heat. Last year just 46.7% said they were taking steps. A growing number are also making the actual gas conversions when all else fails: 32.9% this year vs. 26.8% in 1987.

Upgrading customer systems is important in keeping gas out of the cellar. We ask dealers what prompts them to recommend equipment replacement and their answers are detailed in **Table 29**. Units with continuous problems has taken over the lead here, up from third place last year. This is perhaps indicative of the increased use of computer reports that are telling marketers which systems are money losers to their service department.

Marketers are using such reports to sell new equipment, which is making excellent use of such data. Another figure which is rooted in Table 28 is the category "home-owner threatens to convert to another fuel." This was last on the 1987 list but has jumped up to fifth this year.

Equipment manufacturers are interested in **Table 30**. It vividly documents the importance of dealer recommendations on equipment sales. Two-thirds of the marketers polled said they make specific brand recommendations in equipment upgrades, and fully 84% of the homeowners follow these recommendations.

This figure hasn't changed much in the five or six years we have asked this question, so manufacturers who ignore marketers in their marketing efforts should reconsider their strategies.

What factors contribute to marketer brand selection? **Table 31** provides the answer, with quality of construction the first choice by the marketers polled. Combustion efficiency is second, followed pretty far back by ease of service and low incidence of service.

TABLE 31
Percent Indicating Major Factor in Brand Selection

	New England	Mid-Atlantic	South	Mid-West	West	All Sections
Quality of construction	76.9	69.6	71.4	50.0	87.5	71.1
Combustion efficiency	65.4	78.3	57.1	78.6	67.5	69.4
Ease of Service	42.3	52.2	28.6	50.0	16.5	37.9
Low Incidence of Service	42.3	47.8	42.8	21.4	16.5	34.2
Quietness	19.2	30.4	14.3	7.1	75.0	29.2
Long Warranty	19.2	26.1	28.6	35.7	32.5	28.4
Durability	30.8	30.4	28.6	7.1	*	19.4
Low Retail Price	7.7	26.1	*	14.2	25.0	14.6
Compactness	*	17.4	14.3	7.1	25.0	12.8
High Markup opportunity	3.8	4.3	*	*	*	1.6

* - Less than .1%

TABLE 32
Retail Gasoline Outlets and Volume

	Avg. No.	Less Than 50,000*	50,000 - 100,000.*	100,000 +*
New England	1.3	25.0	50.0	25.0
Mid-Atlantic	3.5	23.8	28.6	47.6
South	14.4	54.5	36.4	9.1
Midwest	2.1	58.3	20.9	20.8
West	2.4	52.6	31.6	15.8
All Sections	**4.7**	**42.8**	**28.5**	**23.7**

* Percent reporting such volume in gallons per month.

TABLE 33
Services Offered at Retail Outlets
(% reporting such offerings)

	Check Cashing	Auto Service	Fast Food	TBA	Lottery Tickets	Beer/ Wine	Bakery Goods	Canned Goods	Cigs & Soda
New England	25.0	33.3	66.7	33.3	66.7	33.3	66.7	33.3	100.0
Mid-Atlantic	50.0	40.0	46.7	33.3	26.7	33.3	53.3	75.0	100.0
South	45.5	27.3	81.8	45.5	9.1	63.6	63.6	72.7	90.9
Midwest	47.4	36.8	47.4	42.1	36.8	36.8	63.2	52.6	89.5
West	52.9	70.6	58.8	52.9	35.3	41.2	29.4	41.2	76.5
All Sections	**44.2**	**41.6**	**60.3**	**41.4**	**34.9**	**41.6**	**55.2**	**55.0**	**91.4**

TABLE 34
Industry Publications Most Helpful to Dealers In Operating Their Fuel Oil Businesses
(% reporting)

	New England	Mid-Atlantic	South	Mid-West	West	All Sections
Fuel Oil News	86.2	87.2	88.5	82.1	68.6	82.5
Fueloil & Oil Heat	65.5	71.8	23.1	41.0	31.4	46.6
National Petroleum News	3.4	35.9	42.3	17.9	45.7	29.0
Petroleum Marketer	*	7.8	23.1	15.4	8.6	11.0
Other Petroleum/ C-Store Products	3.4	2.6	3.8	7.7	11.4	5.8
Contractor	*	2.6	7.7	5.1	11.4	5.4
Journal of Petroleum Marketing	3.4	10.3	*	5.1	*	3.8
Snips	*	5.2	*	2.6	*	1.6
Oil Daily	*	2.6	*	5.1	*	1.5
	*	*	3.8	2.6	*	1.3

* - Less than .1%

Quality and efficiency, therefore, are the overwhelming considerations. This was true last year, and in all the previous years in which we asked this question. Some of the lesser factors changed their position relative to one another, but it's obvious what manufacturers need to stress in their product offerings.

Motor Fuels

With the steady increase of gasoline marketing in the so-called fuel oil dealer's repertoire of products, we instituted some questions about it a few years ago, with the results shown in **Tables 32** and **33**.

The average number of gasoline outlets has gone up about 1.5 since last year, which may mean that marketers are more involved in this operation. Then again, this could simply be another example of sample variation.

The volume percentages are about the same as last year, with perhaps a few more in the 100,000 gals. + per month category. The percentages relative to convenience store products and/or services shown in Table 33 are also pretty close to those posted in 1987. Cigarettes and soda is the most popular offering, followed by fast foods/deli. Lottery tickets is the least popular, but this may be because not every state has a lottery (yet).

That's It

Whew. There it is. Our 1988 dissection of the oil heating industry will, we hope, provide important information for everyone. Marketers can use the statistics to determine how they stack up vs. their peers. Manufacturers and suppliers can use the findings to structure their marketing efforts. Government officials can learn how to best help the industry. Competitors will discover that we're not dead yet, despite their best efforts.

Oh, yes, we did forget something. How is *Fuel Oil News* doing? That was actually one of the first questions we asked. We didn't exactly phrase it that way...we asked marketers which publications were most helpful in operating their businesses. We came out on top once again, by a nearly two-to-one margin over the other publication.

We've won this horse race every year by a wide margin, suggesting to us that we continue to provide the kind of editorial material which the industry needs and wants.

We anticipate that our next survey will be relatively unexciting. There isn't anything on the horizon which suggests severe difficulties. The oil heat industry is solid and continuing not only to maintain its market share but also to win the all important new home segment.

Because of this trend, we are planning to ask some new questions next year to determine the success of such an undertaking, as well as an attempt to determine how much marketers are spending on marketing, promotion and advertising, both individually and as contributions to group activities.

We are also planning new surveys next year to explore supplier plans and promotional programs, as well as government statistics on the market. We'll also continue to present the popular features that have been traditional at *FON*. Happy New Year! **F•N**